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AGENDA ITEM 8a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Member Home Loan Program Manager Annual Review
- II. PROGRAM:** Member Home Loan Program (MHLP)
- III. RECOMMENDATION:** Extend CitiMortgage Inc.'s Contract for 12 months
- IV. ANALYSIS:**

Introduction

This agenda item is the annual review of CalPERS' Member Home Loan Program Manager. In addition, staff seeks approval of a contract extension for up to 12 months until a new contract is signed and implemented.

Contract Extension

The CalPERS MHLP was created by statute in 1981 to help Members purchase and refinance homes. Since the inception of the program, over 129,886 loans have been originated, exceeding \$21.0 billion in volume.

Effective April 1, 2003, CalPERS awarded CitiMortgage, Inc. contract 2002-2987 to provide master servicing and program management of the CalPERS MHLP. The current contract expires on March 31, 2008. A Request for Proposal for master servicing and program management services was issued on July 13, 2007. As presented at the February 2008 Investment Committee meeting, staff intends to award a new contract to CitiMortgage and the contract is being drafted and negotiated. However, the new contract will not be signed until after the expiration of the current contract because the process involved successful fee negotiations which took longer than expected. Therefore, staff requests that

the Investment Committee extend CitiMortgage's contract for up to 12 months so that the new contract may take effect.

Annual Review

CitiMortgage successfully managed the loan production efforts of participant lenders. MHLP volume increased from \$226.6 million in 2006 to \$415.3 million in 2007. CitiMortgage also satisfactorily performed its warehousing, pooling, securitization, sales and servicing functions during 2007.

Compliance with Contractual Terms

In 2007, Investment staff implemented a review of the program managers contractual compliance. An independent review by CalPERS Data Integrity Group (DIG) was conducted and they reported that CitiMortgage is satisfactorily complying with Member Home Loan contractual terms.

Market Environment

In 2007, the nation's economy started to suffer from a subprime mortgage crisis. The crisis stemmed from a proliferation of riskier loan products and looser underwriting standards in an environment where many loan originators had no economic exposure to the underlying loans. This non-alignment of economic interest between loan originators and investors facilitated the origination of these riskier loans, and resulted in increased production of these products. These riskier loans included no documentation loans, stated income loans, negative amortization loans, option ARMs and subprime loans.

Despite pressure from lenders to offer non-traditional loans, the MHLP has maintained its conservative offering of loan products.

Rise and Fall of California Real Estate Prices

California real estate prices appreciated rapidly from 2000 to 2006 but then declined significantly during 2007. California Association of Realtors (CAR) reported the median price of a single-family home in California was \$241,350 in December 2000 and \$569,350 by December 2006. By December 2007, prices contracted by approximately 17% to a price of \$475,460.

Member Home Loan Delinquency and Foreclosure Performance in 2007

Compared to Mortgage Bankers Association (MBA) nationwide industry data, loans originated under MHLP had a lower percentage of delinquencies and foreclosures. Overall, MHLP delinquency rates were 1.84% (472 of 25,631 loans) as of September 30, 2007, compared to a nationwide industry ratio of 3.28%.

Foreclosure rates on prime fixed rate loans originated under the MHLP was only .07% compared to the nationwide industry average of 0.22%. It is worth noting that the majority of loans originated under MHLP are secured by real estate in California, a state that has witnessed higher levels of non-traditional loan originations and higher defaults compared to the nation.

Summarily, here is a chart comparing MHLP with MBA industry data:

Ratios as of September 30, 2007	MHLP (mainly California)	Nationwide Industry (MBA) data
Overall delinquency	1.84%	3.28%
Prime fixed rate foreclosure	0.07%	0.22%

V. STRATEGIC PLAN:

Monitoring and review of CalPERS Member Home Loan Program is consistent with Goal V: Provide sustainable pension benefit products and services responsive to and valued by members, employers and stakeholders.

VI. RESULTS / COSTS:

Extending the term of CitiMortgage's contract is not expected to result in any increased costs to CalPERS.

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